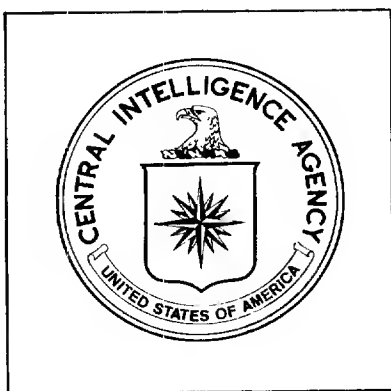


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STAFF NOTES:

Latin American Trends

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LATIN AMERICAN TRENDS

This publication is prepared for regional specialists in the Washington community by the Western Hemisphere Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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Argentina: Energy Prospects for 1975

Increased gas and coal production, development of the nation's vast hydroelectric potential, and activation of Latin America's first nuclear power reactor will enable Argentina to cut oil consumption while providing enough energy to support an expected 5-percent rise in GNP this year. These factors and a slight recovery of domestic crude output should permit Argentina to cut oil imports by about 5,000 b/d.

Domestic crude production is expected to be around 417,000 b/d. Nearly 40 wells were drilled in 1974 at a cost of \$12 million and even more are planned this year. Most gains, however, probably will come from increased use of secondary recovery techniques in existing fields. Offshore development is still in its infancy, but the state-owned petroleum company has bought another offshore rig for \$60 million to replace one that sank en route in November. The new rig, capable of operating in 600 feet of water and drilling to depths of 18,000 feet, will be used to explore off the coast of Tierra del Fuego.

Argentina will still have to import some 15 percent of its petroleum needs, 20 percent of its gas, and more than half of its coal in 1975 even with the expected recovery in domestic crude output and a rapid expansion of gas and coal production. Nevertheless, Argentina's lower renegotiated prices for crude imports will cut nearly \$50 million from Argentina's import bill despite higher prices for imported coal and natural gas. Last year Argentina paid Libya an exorbitant amount to meet its petroleum needs (more than \$16 per barrel c.i.f.).

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Consumption of petroleum products stagnated in 1974 and is not likely to increase this year. Conservation measures introduced in 1974 included sharp increases in gasoline prices, lower speed limits, and controls on private automobile traffic. While some of these restrictions were eased toward the end of the year, conversion of thermal generators from fuel oil to gas and coal firing and a more than 60-percent jump in non-thermal generating capacity last year should easily permit further cuts in oil consumption in 1975.

Official claims that Argentina will be self-sufficient in energy by 1977 appear extremely optimistic. However, continued expansion of gas and coal production at annual rates of around 9 percent and 20 percent, respectively, and rapid expansion of hydroelectric capacity should keep fuel imports requirements stable. As a result, energy imports will not pose a serious threat to balance-of-payments stability for Argentina in the foreseeable future, and growth should be unimpaired by energy constraints. (CONFIDENTIAL)

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Argentine Superport Hits Snags

(Condensed from the Latin America Economic Report
January 3, 1975)

Construction of a multi-million-dollar naval port facility at Cabo San Antonio has been postponed indefinitely, only a few weeks after President Peron had pledged "very special attention" to the project.

Although the need for studies of hydrographical conditions is the official explanation for the delay, most sources believe that the government simply cannot afford this project. Economic Minister Gomez Morales noted recently that Argentina's biggest problem is a fiscal deficit of nearly \$3 billion. He now intends to cut current government expenditures by between 10 and 15 percent, and freeze all big public investment projects which do not have "real" financing available. This rules out most projects that lack foreign investment. An exception, however, is the planned expansion of the Buenos Aires subway to which the government has already committed \$150 million.

The decision to suspend work at Cabo San Antonio automatically strengthens the Uruguayan alternative project for a deep-water port probably at La Paloma. A preliminary study by the Inter-American Development Bank suggests that a port capable of handling ships of up to 100,000 tons could be built there at one tenth the cost of the Cabo San Antonio complex. A good deal of Argentine trade could then be routed through Uruguay at a much lower cost.

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There are strategic arguments against this alternative, however. Argentina is not predisposed to have so much of its trade handled through a foreign port. The navy especially is miffed by the delay and unwilling to drop its proposal. Naval chiefs are now arguing that Cabo San Antonio is important because all of their present facilities are "strategically vulnerable."
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Guantanamo "Fence-jumpers"

The number of Cubans finding refuge at the US Naval Base at Guantanamo declined to 29 last year-- the lowest total since the Castro regime came to power.

This decrease is in keeping with the trend toward a dwindling number of "fence-jumpers." Their number reached a high of 1000 in 1968 but dropped steadily in succeeding years, especially after 1970 when the Cuban government tightened security by completing three barbed-wire fences and a mine field extending nearly 18 miles along the west, north, and east boundaries of the base. Construction of a fourth fence was begun in 1974.

The pattern of exodus over the years can be seen in the following figures:

<u>Year</u>	<u>Number of "fence-jumpers"</u>
1964	35
1965	72
1966	136
1967	518
1968	1000
1969	786
1970	384
1971	133
1972	48
1973	75
1974	29

A growing awareness by the Cuban people of the permanency of the Castro regime and a gradual adjustment to life under it have probably also contributed

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to the decrease in number of refugees. Increasingly, "fence-jumping" has become a last resort for those with compelling reasons to leave. Last year, five of the fugitives were military deserters, and of the remaining 24, 20 had prison records.

The physical rigors demanded in escaping to Guantanamo are reflected in the fact that 25 of last year's "fence-jumpers" were adult males; 18 of these were 30 or younger. The effectiveness of the mine-and-fence barrier caused many refugees to enter the base by water through Post 21, where Guantanamo Bay broaches the fence line. In 1974, however, only three entered at this post, possibly because of stepped-up patrolling by the Cuban security forces in upper Guantanamo Bay. (CONFIDENTIAL/NO FOREIGN DISSEM)

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Cuba: An Olive Branch to the Dominican Republic?

Havana may be trying to signal the Balaguer government that Cuban policy toward the Dominican Republic does not include violent revolution. The Cubans must have been pleased by the Dominican vote in favor of lifting the OAS sanctions in Quito last November and may now look upon the Balaguer administration as susceptible to careful Cuban cultivation.

Prior to the Quito meeting, a member of the opposition Dominican Popular Movement (MPD) returned to Santo Domingo from a trip to Cuba with the report that the Cubans do not want to become involved in "the export of the revolution" again at a time when they are establishing formal ties with other Latin American countries. The MPD member got this information from

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also said he doubted that the Cuban government would support any attempt by the three leaders of a guerrilla group now in exile in Cuba to make a guerrilla landing in the Dominican Republic. (The trio is supported financially by the Cuban government but, rather than organizing and training for a guerrilla operation in their homeland, all three are employed in agriculture and construction.)

A month after the Quito meeting, a Cuban vice minister of education visited the Dominican Republic with a Cuban team of gymnasts participating in international competition in Santo Domingo. While there, the vice minister said that his government had abandoned

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"the export of the revolution" because the policy had suffered many failures, the economy could no longer support it, and the US would not permit--as the Chile experience allegedly proved--another Communist government in Latin America. He said that the two primary objectives of Cuban foreign policy were to establish normal diplomatic and economic relations with other countries and to support Soviet efforts to achieve detente with the West.

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The comments of the high Cuban education official almost certainly were intended for the ears of the Dominican hierarchy--presumably as an indirect reply to the favorable Dominican vote in Quito. It is also likely that Havana expected [redacted] to reach official attention and help allay any fears that the Castro regime is interested in a repetition of the Francisco Caamano guerrilla incursion of early 1973. The Cubans, moreover, probably know that the Balaguer administration has penetrated the MPD and therefore has probably heard about the report of the MPD member who visited Cuba. Thus Havana may believe that the Balaguer government can be persuaded in this manner to resume formal relations on the basis of a Cuban pledge of non-interference. (SECRET/NO FOREIGN DISSEM/NO DISSEM ABROAD/BACKGROUND USE ONLY/CONTROLLED DISSEM)

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Mexico: The Year of the Campesino

With an impressive series of organizational, budgetary, and political moves over the past several weeks, the Echeverria administration has begun a belated assault on agrarian problems. The government is obviously serious about making 1975 the "year of the campesino," but solutions to poverty, unemployment, and falling food production in the countryside are likely to be slow in materializing.

The first step was taken in December--an 80-percent increase in the 1975 budget allotment for agriculture to \$4.8 billion. Next came the establishment of a new cabinet-level post for the office dealing with land tenancy. Shortly after that, three mildly dissident farm organizations unexpectedly signed a pact with the government's huge National Peasants Confederation in support of President Echeverria's agrarian policies. The latest step came last week when Echeverria merged three separate government banks dealing with agricultural credits.

The attention given the rural areas comes none too early. As far back as the late 1960s Mexican officials became alarmed about the economy. Buried beneath rosy statistics of economic growth lay some disquieting data showing that the economy, although growing, was not developing in a balanced fashion. The gaps in income, productivity, and growth between the modern, industrialized sector and the traditional, agricultural sector were becoming more rather than less pronounced.

The chief reasons why the rural sector is likely to remain depressed for some time are the failure of the country's agrarian reform and the inefficiency and corruption of the bureaucracy. Severe drought and floods have compounded the government's difficulties.

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Agrarian reform seemed like a radical measure when it was launched after the 1910 Revolution, but it has slowly been adapted or ignored to suit the interests of a minority. Statistics reflect the dramatic inequities. Farms of less than 25 acres make up 85 percent of all cultivated land, but produce only 9 percent of total farm output. Monthly incomes for over 60 percent of the peasant families are less than \$48. Few peasants have adequate credit facilities, irrigation, equipment, and training in efficient agricultural methods.

Bureaucratic fumbling and corruption add to the problem. Officially, the countryside has received a fair amount of assistance. But a large part of the money destined as credit for the peasant has been lent instead to wealthy landowners or malappropriated. An official of Nacional Financiera, a largely government-owned investment bank, recently claimed that it would be a miracle if half the revenues planned for 1975 ever reach the campo.

Despite this sad state of affairs, rural revolt does not seem likely. Politically, the peasants are weak and easily manipulated by the government. Their leaders owe their positions to higher authority rather than to grass-roots support. The peasants, apathetic and fearful of authority, generally appear content with the promise of more help from the government.

Even if the peasant is to benefit from the recent government moves, the signing of the solidarity pact by the dissident farm organizations makes it apparent that he is going to benefit only in ways the government will determine. While ostensibly an endorsement of the administration's agrarian policies, the pact's hasty signing and language have the earmarks of official cooptation--possibly a case of dissident leadership being enticed by the government to join its fold by offers of safe sinecures. (CONFIDENTIAL)

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Peru: The Stage is Set

The several cabinet-level personnel changes that have taken place in the past few weeks reflect President Velasco's concern that more radical officers who are personally loyal to him retain control of important government posts. On February 1, however, what may be the most important cabinet changeover in the course of the six-year-old revolution takes place.

On that date, Prime Minister Mercado is scheduled to retire and be succeeded by Army Chief of Staff Morales Bermudez. During his two-year tenure, Mercado gained a reputation as being vain, indecisive, and indiscreetly ambitious. Morales Bermudez, on the other hand, is widely respected for his honesty, intelligence, and economic savoir-faire. In addition, however, Morales Bermudez' political views, while strongly nationalistic, are decidedly more moderate than those of the President. It was this factor that prompted Velasco last fall to attempt to maneuver Morales Bermudez out of the premiership or weaken that post by creating a new vice presidential slot to be manned by a velasquista. This proposal was reportedly opposed by most top officers, and Velasco appears to have resigned himself to having Morales Bermudez as his second-in-command, at least for the time being.

While policy disagreements between the President and the new Prime Minister are certain, it is not yet clear how strongly Velasco will oppose efforts to moderate the radical and at times repressive policies he favors. Velasco's proven ability to manipulate his subordinates gives him at least an initial advantage.


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 Morales Bermudez already is gearing up to challenge Velasco on such important matters as government subsidies, mass mobilization of civilians, and government control of business. Observers should not have to wait long after February 1 to gain insights into how the course of the revolution will be affected under the leadership of two strong, but ideologically different, generals. (SECRET/NO FOREIGN DISSEM/CONTROLLED DISSEM)

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Panama: Canal Negotiations Controversy

Early this month the Torrijos administration launched a counterattack against critics of its handling of the canal treaty negotiations. On January 9, the anniversary of the 1964 Canal Zone riots, Labor Minister Rolando Murgas said that Panama is on the verge of obtaining a new treaty that will meet its key aspirations. He added that Panamanians should now close ranks behind the government.

General Torrijos picked up this theme in a speech on January 12. He denounced those who are demanding that he report publicly on the conduct of the negotiations because this would break his promise of confidentiality and would provide ammunition to those in Panama and abroad who want to sabotage the treaty. He also asserted that the group demanding "all or nothing" in the negotiations would be the first to take a plane for Miami if the talks broke down and a confrontation between Panama and the US over the Zone developed.

The pro-government sector of the communications media has joined in the campaign. An editorial by Radio Libertad labelled the attempts to force the government to release the details of the negotiations "a criminal trap" and "a shameful ambush." The station attacked radio commentators and others attempting to use the negotiations issue to "stir the emotions of Panamanians, to activate the rumor mill, and to provoke conflicts."

The government propaganda campaign is aimed at the two disparate groups that have criticized Torrijos' handling of the negotiations--the "ultranationalists"

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and the "oligarchy." The core of the former group consists of students and members and sympathizers of the Communist party. The "oligarchy," which dominated Panama until the 1968 coup, is strongest in the business and financial sectors. Torrijos is probably correct in his assertion that both groups seek his ouster, and that they are using criticism of the canal negotiations as a weapon to try to bring this about. They are playing on the widespread distrust of US motives and on the fact that Torrijos is not going to get a "perfect" treaty to try to weaken confidence in the government.

As the nature of the compromises that Torrijos will have to make to get a treaty become clearer and as movement toward the completion of a draft treaty continues, the opposition will become increasingly noisy. Torrijos is likely to be torn between the desire to show how much he has gained thus far and the need to keep the negotiations confidential. Although thus far he has tolerated criticism of the negotiations, he will not hesitate to stifle it if he becomes convinced that it is weakening his bargaining position.
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Economic Outlook for Latin American Oil Importing Countries

Most Latin American oil importers are facing serious balance-of-payments and domestic economic problems in 1975. Prices for imported petroleum and food have risen while prices for their major exports have fallen.

The impact of high oil prices was cushioned during the first part of 1974 by booming export prices, but the situation began to worsen after mid-year. Spreading recession and financial strain in the industrial countries eroded export prices and disrupted capital flows. By year's end foreign reserves had fallen more than \$1.0 billion. Economic growth also slipped as rising oil and food import costs reinforced other inflationary pressures, requiring most governments to cut the expansion of money and credit sharply.

Foreign payments problems will continue through 1975 if--as seems likely--export markets remain depressed while high prices for imported oil and manufactured goods continue. To protect foreign reserves, most countries are now restricting imports, adding further to inflationary pressures. Money and credit policies probably will need to be tightened further to contain inflation, and economic growth will be held to a slow pace.

Among the larger countries, problems are most acute in Brazil and Chile. Brazil's export outlook is fairly good because of strong sugar and soybean markets, but the inflow of foreign capital faltered badly during the second half of 1974 and has revived only partially. Stiff import restraints are now being imposed to prevent

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further foreign exchange losses, and economic growth will probably be only half the 10-percent annual rate of recent years. Chile's economy is now deteriorating rapidly after making some recovery from the Allende period. Export prospects are poor because of falling copper prices. Capital inflows remain low despite favorable investment legislation and the settlement of outstanding disputes with foreign investors.

Argentina, on the other hand, will probably experience another relatively comfortable trade position this year. Nearly self-sufficient in oil, Buenos Aires is also benefiting from high grain prices that tend to offset a very poor wheat crop and the refusal of the European Community to continue buying Argentine beef.

Among the smaller oil importers, the sugar and bauxite producers of the Caribbean are faring reasonably well. Elsewhere, however, the small countries of South and Central America generally are confronted with payments problems and some face special difficulties as well. Uruguay is being hurt by the loss of its beef markets in Japan and the European Community. Although the recent agreement for Venezuela to supply petroleum to the five Central American countries and Panama at concessional prices eases their balance of payments problems, prospects for 1975 remain poor. Moreover, Honduras is suffering from hurricane damage, particularly to its leading export, bananas.
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